

Kingman-Norwich Recreation Commission

Kingman, Kansas

FINANCIAL STATEMENT

WITH

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2012

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**Kingman-Norwich Recreation Commission
Kingman, Kansas
December 31, 2012**

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INDEPENDENT AUDITORS' REPORT

To the Board and Management
Kingman-Norwich Recreation Commission
Kingman, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Kingman-Norwich Recreation Commission, a related municipal entity of Unified School District No. 331, Kingman, Kansas, as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Managements Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Kansas Municipal Audit and Accounting Guide. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by Kingman-Norwich Recreation Commission to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than the accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Kingman-Norwich Recreation Commission as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Kingman-Norwich Recreation Commission as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedules 1, 2, 3, and 4 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.



Daniel L. Drake, CPA
Daniel L. Drake, CPA, P.A.

July 8, 2013

KINGMAN-NORWICH RECREATION COMMISSION
Kingman, Kansas
Summary of Cash Receipts, Expenditures, and Unencumbered Cash - Regulatory Basis
For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:						
General Funds:						
General	\$ 24,463	\$ 287,719	\$ 317,894	\$ (5,712)	\$ 6,743	\$ 1,031
Special Purpose Funds						
Employee Benefits Fund	12,300	22,234	37,055	\$ (2,521)	2,685	\$ 164
Total Reporting Entity	<u>\$ 36,763</u>	<u>\$ 309,953</u>	<u>\$ 354,949</u>	<u>\$ (8,233)</u>	<u>\$ 9,428</u>	<u>\$ 1,195</u>
Composition of Cash:						
Checking Accounts						\$ 1,183
Savings						12
Total Composition of Cash						<u>\$ 1,195</u>

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements.

KINGMAN-NORWICH RECREATION COMMISSION

Kingman, Kansas

Notes to Financial Statement

For the Year Ended December 31, 2012

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity

Kingman-Norwich Recreation Commission is a related municipal entity of Unified School District No. 331. They are to provide recreational services in and around Kingman and Norwich, Kansas. The Recreation Commission is governed by a five member board appointed by USD No. 331 and is a separate governing body. USD No. 331 levies the taxes for the Recreation Commission and the recreation commission has only the powers granted by statute K.S.A. 12-1928. The Recreation Commission cannot purchase real property but can acquire real property by gift.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The Recreation Commission has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waving the requirement for application of Generally Accepted Accounting Principles and allowing the municipality to use the regulatory basis of accounting.

Regulatory Basis Fund Types

The following categories of funds comprise the financial activities of the Recreation Commission for the year ended December 31, 2012:

General Fund- This fund is used to account for all financial resources except those required to be reported in another fund.

Special Purpose Fund - This fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for the funds specified purpose. The Recreation Commission has a special purpose fund for Employee Benefits.

Note 2. Stewardship, Compliance and Accountability

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory the statutes provide the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

KINGMAN-NORWICH RECREATION COMMISSION

Kingman, Kansas

Notes to Financial Statement

For the Year Ended December 31, 2012

Note 2. Stewardship, Compliance and Accountability (continued)

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or a contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital project funds, trust funds, and certain special purpose funds. No such funds exist for the Recreation Commission

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Compliance with Kansas Statutes

Deficit Unencumbered Cash for General Fund and Employee Benefit Fund

At the end of 2012 both the General Fund and the Employee Benefit Fund show a deficit balance in their unencumbered cash balance. The deficit arose due to cash receipts being budgeted at a significantly higher rate than what actually occurred. This under budgeting of cash receipts led the Recreation Commission to encumber a large amount of items while waiting for a January tax payment. These encumbrances led to a deficit showing in the unencumbered cash balance.

In order to assure that this does not occur again the Recreation Commission proposed and passed a mill increase in April of 2013. The mill increase will increase the General Fund from 3 Mill to 5 Mill which is approximately an increase of \$140,000. In addition the Mill on the employee benefit is also expected to increase by at least 1 Mill or approximately \$70,000.

Note 3. Deposits and Investments

As of December 31, 2012 the Recreation Commission had no open investment funds.

K.S.A. 9-1401 establishes the depositories which may be used by the Recreation Commission. The statute requires banks eligible to hold the Recreation Commission's funds have a main or branch bank in the county in which the Municipality is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. As of December 31, 2012 the Recreation Commission has established a pledge security with Kanza Bank for \$70,000 for instances where deposits exceed the amount covered under FDIC insurance. The Recreation Commission has no other policies that would further limit interest rate risk.

KINGMAN-NORWICH RECREATION COMMISSION

Kingman, Kansas

Notes to Financial Statement

For the Year Ended December 31, 2012

Note 3. Deposits and Investments (continued)

K.S.A. 12-1675 limits the Recreation Commission's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Recreation Commission has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Recreation Commission may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405

Custodial credit risk- deposits. Custodial credit risk is the risk that in the event of a bank failure, the Recreation Commission's deposits may not be returned to it. State statutes require the Recreation Commission's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Recreation Commission has not designated a "peak period" All deposits are legally secured at December 31, 2012.

Note 4. Defined Benefit Pension Plan

Plan description. The Recreation Commission participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas Law. KPERS provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-419 and K.S.A. 74-49,210 establish the KPERS member-employee contributions rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS are funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in employer contribution rates.

Note 5. Other Post Employment Benefits

As provided by K.S.A. 12-5040, the Recreation Commission allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the Recreation Commission is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Recreation Commission makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by federal government for this coverage. The premium is paid in full by the insured.

KINGMAN-NORWICH RECREATION COMMISSION
Kingman, Kansas
Notes to Financial Statement
For the Year Ended December 31, 2012

Note 6. Long-term Debt

On May 1, 2009 the Recreation Commission entered into a long-term lease for the purpose of obtaining a sports lighting system for Riverside Park. The Recreation Commission entered into an equipment lease purchase agreement with Kanza Bank to purchase the equipment, subject to the terms and conditions of the agreement in the amount \$382,200. Total interest paid for the year was \$14,168.

Changes in long-term liabilities for the entity for the year ended December 31, 2012 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year
Capital Leases								
Lighting Project	5.00%	5/1/2009	\$ 382,200	5/15/2019	\$ 302,247	\$ -	\$ 31,038	\$ 271,209

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	2013	2014	2015	2016	2017	2018-2019	Total
Principal							
Lighting Project	\$ 35,998	\$ 37,840	\$ 39,776	\$ 41,811	\$ 43,950	\$ 71,834	\$ 271,209
Interest							
Lighting Project	12,743	10,901	8,965	6,930	4,791	2,910	47,240
Total principal and interest	\$ 48,741	\$ 48,741	\$ 48,741	\$ 48,741	\$ 48,741	\$ 74,744	\$ 318,449

Note 7. Subsequent Events

Management has evaluated the effects of the financial statement of subsequent events occurring through July 8, 2013 which is the date at which the financial statements were available to be issued. During the evaluation they identified the following:

In May of 2013 the Recreation Commission entered into a new lease agreement on their capital lease for a lighting project. The new lease agreement resulted in an additional advance of \$26,028 to the outstanding balance and changed the interest rate from 5% to 4%. In addition the life of the loan was extended and will now end on June 1, 2023 instead of May 5, 2019.

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

KINGMAN-NORWICH RECREATION COMMISSION
Kingman, Kansas
Summary of Expenditures - Actual and Budget - Regulatory Basis
For the Year Ended December 31, 2012

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance-Over (Under)
Governmental Type Funds:					
General Funds:					
General	\$ 334,000	\$ -	\$ 334,000	\$ 317,894	\$ (16,106)
Special Purpose Funds					
Employee Benefits Fund	37,839	-	\$ 37,839	37,055	(784)

KINGMAN-NORWICH RECREATION COMMISSION

Kingman, Kansas

General Fund

Summary of Cash Receipts and Expenditures, Actual and Budget - Regulatory Basis

For the Year Ended December 31, 2012

	Current Year		
	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem	\$ 221,726	\$ 218,606	\$ 3,120
Reimbursed Expenses	36,961	89,000	(52,039)
Interest	96	1,560	(1,464)
Net Pool Receipts	28,936	-	28,936
Total Cash Receipts	<u>\$ 287,719</u>	<u>\$ 309,166</u>	<u>\$ (21,447)</u>
Expenditures			
Personal Services	120,218	\$ 125,000	\$ (4,782)
Contractual Services	12,221	14,000	(1,779)
Commodities	41,722	38,000	3,722
Capital Outlay	45,316	59,000	(13,684)
Recreation Programs	38,822	98,000	(59,178)
Net Pool Expenditures	32,507	-	32,507
Pool Reimbursements	(23,906)	-	(23,906)
Lease Principal	31,038	-	31,038
Lease Interest	14,168	-	14,168
Miscellaneous	5,788	-	5,788
Total Expenditures	<u>317,894</u>	<u>\$ 334,000</u>	<u>\$ (16,106)</u>
Receipts Over (Under) Expenditures	(30,175)		
Unencumbered Cash, Beginning	24,463		
Unencumbered Cash, Ending	<u>\$ (5,712)</u>		

See Independent Auditor's Report

KINGMAN-NORWICH RECREATION COMMISSION
Kingman, Kansas
Employee Benefit Fund
Summary of Cash Receipts and Expenditures, Actual and Budget - Regulatory Basis
For the Year Ended December 31, 2012

	Current Year		
	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem	\$ 22,234	\$ 22,000	\$ 234
Expenditures			
Payroll Taxes	10,845	\$ 9,000	1,845
Retirement	5,737	7,488	(1,751)
Workers' Compensation Insurance	1,149	1,650	(501)
Health Insurance	19,319	18,167	1,152
Errors and Omissions	5	1,534	(1,529)
Total Expenditures	<u>37,055</u>	<u>\$ 37,839</u>	<u>\$ (784)</u>
Receipts Over (Under) Expenditures	(14,821)		
Unencumbered Cash, Beginning	<u>12,300</u>		
Unencumbered Cash, Ending	<u>\$ (2,521)</u>		